

Draft
Levee Program 10-Year Finance Plan – Straw Proposal

Funding and Performance History

Funding History: Between 2000 and 2004, funding for the Levees Program has totaled \$83.4 million, broken down as follows:

- \$68 million State – primarily bond funds
- \$0.7 million Federal
- \$1.2 million State Water Project contractors, and
- \$13.5 million local reclamation districts

Funding has averaged about \$21 million annually over this time period. Funding was for levee maintenance, levee improvements, habitat improvements, and studies. In addition, significant contributions were made before the ROD through DWR's Delta Levees subventions and special projects programs, which have been in place since 1972.

Performance: *To be added.*

Proposed 10-Year Finance Plan

1. **Program Organization:** The CALFED Levees Program has previously been organized and described in the ROD with two primary components: Base level protection (leading to PL 84-99 level of protection) and Special improvement projects. The relationship to DWR's existing Program: Delta Levee Subventions and Special Projects, has been confusing.

Straw Proposal: In order to propose financing options for the Levees program, the following organization is proposed:

Levee Maintenance – The objective of this component is to provide funding for levee maintenance only, with the priority for funding being on local flood control benefits. The maintenance program would continue to rely on the existing method of distributing funding; a locally-driven subventions program.

Levee Improvements – The objective of this component is to provide funding for levee improvements over an existing level of protection. Funding would be based on priority areas that will provide multiple benefits, such as flood protection, water quality, ecosystem restoration, water supply reliability, and transportation benefits. Assuming existing state policy (existing legislation), this funding would provide for net habitat improvement in conjunction with levee maintenance as well as levee improvements. Funding allocations may vary by project depending on the benefits.

All Other Components – This component includes the comprehensive program evaluation (strategic plan), risk assessment, subsidence control plan, emergency response, beneficial reuse of dredge material, program management, oversight, and coordination.

Suisun Marsh Levees – Another component to the Levees Program is the Suisun Marsh Levees, which requires further study before accurate cost estimates and beneficiaries can be identified. The cost allocation remains an open issue in this straw proposal for further discussion and evaluation prior to the final 10-year finance plan in November.

2. ***Future Information Affecting the Levees 10-year Finance Plan:*** The future of the levees program is uncertain based on several factors, including:
- *Program Sunset & Pending Legislation:* Existing legislation for the subventions and special projects programs will sunset on July 1, 2006. The administration is developing legislation to continue the Delta Levees Program. As part of the legislative process, changes could be made to this program that would affect financing.
 - *Federal Authorization:* Proposed Federal authorization could provide as much as \$90 million for the Levees Program. Should authorization legislation pass, the associated appropriations/implementation language would be important in determining how the funding could be used for the Levees Program.
 - *Comprehensive Program Evaluation (Strategic Plan):* Over the next two to three years a Comprehensive Program Evaluation (CPE) will be carried out. The CPE would incorporate the risk study that has been commissioned by DWR, including the expanded scope of the risk study currently being proposed by DWR. The CPE would supplement the DWR risk study to ensure that all relevant levee risks are considered. The CPE would include development of a formal strategic plan including a description of any proposed future program changes. The CPE would recommend priorities for the Delta Levees Program and would estimate funding needs. For example, the P.L. 84-99 ROD target will be reevaluated as part of the CPE, using information from the Risk Study.

CVP and SWP contractors have indicated that they may be willing to help pay for the development of a CPE, but that they would not be willing to pay for any levee improvements until a CPE is in place. The Risk Study is currently scheduled for completion by the end of 2005, but preliminary information may be available in November 2004. The CPE is scheduled to begin in Year 5, and to be completed by the middle of Year 7 (State FY 2006-07).

Straw Proposal: The CPE is estimated to cost \$4 million over a 2 year period, split over 3 fiscal years (\$1 million in Year 5, \$2 million in Year 6, \$1 million in Year 7). Given that the benefits of the CPE are broad across all beneficiaries, a mix of funding sources could be used to fund the CPE—Prop 50, water user funding, and local in-delta landowner contributions. Funding for the CPE is

needed this year but not later than next fiscal year. At this time an allocation is not proposed. Further review of available bond funds is needed. If bond funds are not available, then water user funding may be the only source that can be made available in the timeframe needed.

Check-in Point: In 2 years, when the CPE and legislative process is complete, and federal authorization may have passed, the 10-year finance plan would be revisited based on the knowledge gained, new funding mechanisms would be implemented as appropriate, and program plans would be revised accordingly.

3. **Funding Targets:** These are the revised annual funding targets.
 - a. Levee Maintenance - \$17 million.
 - b. Levee Improvements - \$25 million.
 - c. All Other components (research, emergency response, studies, etc) - \$3 million.
 - d. Suisun Marsh - \$5 million per year for Years 6-9, and \$10 million per year for Years 10-14.

Table 1.

Levees Program 10-Year Funding Targets & Unmet Needs ¹ (\$ in millions) September 27, 2004							
Program Year	Funding Targets		Available Funding			Total Available	Unmet Needs
	Ongoing Annual	10-Year ²	State		Federal		
			GF	Prop 50	Approps.		
Levee Maintenance	\$17.0	\$166.3	\$1.1	\$40.5	\$0.2	\$41.8	\$464.0
Levee Improvements	\$25.0	\$236.5					
All Other Components (Studies/research, emergency response, oversight & coordination)	\$3.0	\$33.0					
Subtotal, Delta Levees	\$45.0	\$435.8					
Suisun Marsh Levees	\$5 - \$10	\$70.0					
Total	\$50 - \$55	\$505.8	\$1.1	\$40.5	\$0.2	\$41.8	\$464.0
NOTES:							
1. Includes funding targets and unmet needs for Years 5-14 of the CALFED Program.							
2. 10-year funding targets are greater or less than ten times the annual targets because funding in the first few years varies.							

4. ***Levee Maintenance:***

About \$13 million is needed for Year 5, with the funding target increasing to \$17 million per year beginning with Year 6. Available State bond funds (\$22 million) are sufficient for Years 5 & 6, but no funding is available for Year 7. (See Table 2 at the end of this write-up)

Traditionally there is no Federal contribution for levee maintenance. There is general consensus among state, federal, and local interests that the maintenance program should remain locally driven (projects selected based on local interest/applications), and the federal government /USACE should not have a financial role.

There are public State benefits from the levee maintenance program. Section 12981 of the Water Code that established the levee program reflects the statewide interest in preserving the Delta in its present form, including the protection of its assets such as agriculture, recreation, fisheries, and wildlife habitat. In addition, existing legislation requires that there is a net habitat improvement from the levees maintenance and improvements programs.

Local landowners clearly benefit from a locally driven maintenance program. Under existing law, the state-local cost share for maintenance is up to 75% state share and at least 25% local share, but historically the distribution has been closer to a 50%-50% cost share due to limited state funding.

While Delta export water users benefit from levee improvements on certain islands by increased protection of water supply and water quality, the levee maintenance program component is locally-driven and focused on local flood control benefits and, therefore, may not justify an export water user contribution.

Straw Proposal: Because the primary beneficiaries of the levee maintenance program are the State and locals, this straw proposal continues the status quo – 75% State/25% local cost share. For a \$17 million annual maintenance program, this amounts to \$12.75 million State, and \$4.25 million local annually. The cost share would be on a sliding scale. In some cases, local landowners may be able to afford to maintain their levees with a higher than 25% share, while others may not be able to afford 25%. On average, the cost share is expected to be 75% State/25% local. The cost share would begin in Year 6, since the Year 5 budget is already determined.

Prop 50 is available to fund the State share for the first two years (Years 5-6). After that, State funding will need to come from other sources. At this time a future water bond is not expected until Year 8 (State Fiscal Year 2007-08) at the earliest.

Therefore, unless General Funds are allocated, there will be a funding gap for the levee maintenance program in Year 7. Given the experience of recent levee breaks and the potential risk of future breaks, it is a high priority that the levee maintenance program be adequately funded. Therefore, a General Fund request of \$12.8 million will be considered for State FY 2007-08. Contributions from boaters or other

infrastructure beneficiaries are not proposed at this time, but may be considered through the comprehensive program evaluation, and proposed upon its completion.

5. ***Levee Improvements:***

\$11.5 million is needed for Year 5, with the funding target increasing to \$25 million per year, beginning with Year 6 (See Table 2). Assuming status quo levels of water user funding (\$0.3 million per year in SWP), and local contributions (\$0.5 million per year) continue, combined with available State bond funds (\$17.6 million), the levee improvements program will be fully funded for Years 5 & 6, but no State funding is available for Year 7.

The levee improvements program provides multiple benefits, including water quality, water supply reliability, and habitat restoration. Therefore the program warrants contributions from the public (State and Federal), export and in-delta water users, and local land owners, because they all benefit from the levee improvements program.

The Federal/USACE share for flood control project improvements is traditionally 65%. If the Senate federal authorization bill passes for the CALFED Program, up to \$90 million in Federal funding would be available. Under current flood control cost share formulas, local agencies are required to provide the lands, easements rights-of-way, and often the ongoing cost of O&M. Some local Reclamation Districts are currently not required to cost share for levee improvements through DWR's special projects program if they have no documented ability to pay.

Export Water users have expressed concern that any water user contribution be directed to activities/projects that provide maximum benefit to them. A levee improvements program that funds projects focused on water supply/quality benefits seems to be appropriate for water user contributions that are linked to those benefits.

Straw Proposal: At this time, it is premature to propose an appropriate share of funding from state, federal water users and local districts for the levee improvements program until the CPE is complete. However, this straw proposal includes an example allocation that shows a strong intent to develop a broader revenue pool from program beneficiaries in the future. Therefore the following cost share is proposed as a "placeholder" for levee improvements:

- Federal 65%
- State 15%
- Water user 15% (In-Delta, CVP exporters, SWP exporters)
- Local 5%.

For a \$25 million annual improvements program, this amounts to \$16.3 million Federal, \$3.8 million State, \$3.8 million water user, and \$1.3 million local. This straw proposal assumes that a new cost allocation that brings in the water user contributions would begin in Year 8, after the CPE is complete. In the interim (Years 5-7), the State would cover the funding gap from the lack of water user and local funding. Available Prop 50 is sufficient for Years 5-6, but General Funds would need

to be requested for Year 7. A new State bond is assumed to cover the State share beginning with Year 8.

The 65% Federal share is proposed to begin in Year 6, and allows for Federal funding to be utilized with required non-Federal cost sharing match and thus the \$90 million Federal funding anticipated to be authorized and appropriated by Congress can be applied in the levee program over 2005 to 2010 (based on current Federal legislation). For Year 5, \$1 million is assumed for the Corps of Engineers to develop a report to Congress in 180 days to prioritize the project construction during years 2005 to 2010 (as described in current Senate Levee Integrity Program legislation) or if the legislation does not pass, use the current Delta Island Reconnaissance Study and implement as a cost share Feasibility Study between the USACE and DWR to identify and justify projects for Congressional authorization in the Delta. The proposed allocation will be reviewed, and possibly changed, through the CPE process.

6. **All Other Components:** All other components includes the comprehensive program evaluation (strategic plan), risk assessment, subsidence control plan, emergency response, beneficial reuse of dredge material, program management, oversight, and coordination.

Straw Proposal: The straw proposal for funding the Comprehensive Program Evaluation was described earlier, under item #2. The remaining items under this category are activities that provide broad benefits, such as research, oversight, and coordination. It seems appropriate that these activities should be funded with public funds. It is proposed that the annual costs for all other components be funded 50/50 State/Federal.

Outstanding Issues

Suisun Marsh Levees – DWR has proposed that the Suisun Marsh Levees program be included in the 10-year finance plan. The Suisun Marsh Levees were previously included under potential capital projects in the 10-year finance plan, for evaluation in the future when more information would be available about cost estimates and beneficiaries. If Suisun Marsh is included in the 10-year finance plan and allocations are proposed, any federal funding that would be proposed would reduce the amount of federal funding available for levee improvements. The table at the end of this paper does not include allocations yet for Suisun Marsh Levees, but if it is decided that Suisun Marsh Levees should be included in the 10-year finance plan for the Levees program, revised allocations may need to be proposed for each of the levees program components.

Table 2.

Levees Program
10-Year Funding Targets & Unmet Needs
(\$ in millions)
September 29, 2004

Program Component / Year	Funding Targets	Available Fund Sources				Total Available	Unmet Needs	Proposed Funding for Unmet Needs				Remaining Funding Gaps
		State		Federal				State	Federal	Export Water Users (SWP/CVP/ In-Delta)		
		GF	Prop 50 ¹	approps								
Levee Maintenance	\$166.3	\$0.0	\$22.0	\$0.0	\$4.0	\$26.0	\$140.3	\$102.0	\$0.0	\$0.0	\$38.3	\$0.0
Year 5	\$13.3		\$9.3		\$4.0	\$13.3	\$0.0					\$0.0
Year 6	\$17.0		\$12.8			\$12.8	\$4.3				\$4.3	\$0.0
Year 7	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 8	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 9	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 10	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 11	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 12	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 13	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Year 14	\$17.0					\$0.0	\$17.0	\$12.8			\$4.3	\$0.0
Levee Improvements	\$236.5	\$0.0	\$17.6	\$0.0	\$0.0	\$17.6	\$218.9	\$34.2	\$147.3	\$27.2	\$10.3	\$0.0
Year 5	\$11.5		\$9.7			\$9.7	\$1.9		\$1.0	\$0.3	\$0.5	\$0.0
Year 6	\$25.0		\$8.0			\$8.0	\$17.1		\$16.3	\$0.3	\$0.5	\$0.0
Year 7	\$25.0					\$0.0	\$25.0	\$8.0	\$16.3	\$0.3	\$0.5	\$0.0
Year 8	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 9	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 10	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 11	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 12	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 13	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0
Year 14	\$25.0					\$0.0	\$25.0	\$3.8	\$16.3	\$3.8	\$1.3	\$0.0

Levees Program
10-Year Funding Targets & Unmet Needs
(\$ in millions)
September 29, 2004

Program Component / Year	Funding Targets	Available Fund Sources				Total Available	Unmet Needs	Proposed Funding for Unmet Needs				Remaining Funding Gaps
		State		Federal				State	Federal	Export Water Users (SWP/CVP/ In-Delta)	Local	
		GF	Prop 50 ¹	approps								
All Other Components (Studies/Research, Oversight & Coordination) ²	\$33.0	\$0.1	\$0.9	\$0.2	\$0.0	\$1.2	\$31.8	\$13.0	\$13.5	\$0.0	\$0.0	\$5.3
Year 5	\$3.0	\$0.0	\$0.5	\$0.2		\$0.7	\$2.3	\$0.0				\$2.3
Year 6	\$5.0	\$0.0	\$0.4			\$0.4	\$4.6	\$1.1	\$1.5			\$2.0
Year 7	\$4.0	\$0.0				\$0.0	\$4.0	\$1.5	\$1.5			\$1.0
Year 8	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 9	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 10	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 11	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 12	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 13	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Year 14	\$3.0	\$0.0				\$0.0	\$3.0	\$1.5	\$1.5			\$0.0
Total	\$435.8	\$0.1	\$40.5	\$0.2	\$4.0	\$44.8	\$390.9	\$149.2	\$160.8	\$27.2	\$48.5	\$5.3
Year 5	\$27.8	\$0.0	\$19.4	\$0.2	\$4.0	\$23.6	\$4.1	\$0.0	\$1.0	\$0.3	\$0.5	\$2.3
Year 6	\$47.0	\$0.0	\$21.1	\$0.0	\$0.0	\$21.1	\$25.9	\$1.1	\$17.8	\$0.3	\$4.8	\$2.0
Year 7	\$46.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$46.0	\$22.2	\$17.8	\$0.3	\$4.8	\$1.0
Year 8	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Year 9	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Subtotal, Years 5-9	\$210.8	\$0.1	\$40.5	\$0.2	\$4.0	\$44.8	\$166.0	\$59.3	\$72.0	\$8.4	\$21.0	\$5.3
Year 10	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Year 11	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Year 12	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Year 13	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Year 14	\$45.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.0	\$18.0	\$17.8	\$3.8	\$5.5	\$0.0
Subtotal, Years 10-14	\$225.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.1	\$224.9	\$89.9	\$88.8	\$18.8	\$27.5	\$0.0

Notes:

1. \$40.5 million remaining from Prop 50 for Year 5 and beyond. Actual timing of bond approval and issuance may differ.

2. All Other components includes oversight & coordination, subsidence control plan, emergency response, risk assessment, and beneficial reuse of dredge material.

Table 3.

Delta Levees Program 10-Year Funding Straw Proposal Annual % Allocations, Beginning Year 8 September 29, 2004									
Program Component	Funding Targets	Allocations, beginning Year 8							
		State		Federal		Export Water Users		Local	
		\$	%	\$	%	\$	%	\$	%
Levee Maintenance	\$17.0	\$12.8	75.0%					\$4.3	25.0%
Levee Improvements	\$25.0	\$3.8	15.0%	\$16.3	65.0%	\$3.8	15.0%	\$1.3	5.0%
All Other Components (Comprehensive Program Evaluation, Studies/Research, Oversight & Coordination)	\$3.0	\$1.5	50.0%	\$1.5	50.0%				
Overall Program Total	\$45.0	\$18.0	40.0%	\$17.8	39.4%	\$3.8	8.3%	\$5.5	12.2%

Table 4.

Delta Levees Program 10-Year Funding Straw Proposal 10-Year Total % Allocations September 29, 2004									
Program Component	Funding Targets	Total Allocations, Years 5-14							
		State		Federal		Export Water Users		Local	
		\$	%	\$	%	\$	%	\$	%
Levee Maintenance	\$166.3	\$124.0	74.6%					\$42.3	25.4%
Levee Improvements	\$236.5	\$51.8	21.9%	\$147.3	62.3%	\$27.2	11.5%	\$10.3	4.3%
All Other Components (Comprehensive Program Evaluation, Studies/Research, Oversight & Coordination)	\$33.0	\$14.0	42.5%	\$13.5	40.9%	\$0.0	0.0%		
Overall Program Total ¹	\$435.8	\$189.8	43.6%	\$160.8	36.9%	\$27.2	6.2%	\$52.5	12.0%

¹ Does not add to 100% due to a funding gap in the first 3 years for the comprehensive program evaluation (CPE).